Saskatchewan Transportation Company

Fourth Quarter Report 2015

For the quarter ending December 31, 2015

2015 4th Quarter Corporate Reporting

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Management Discussion and Analysis

Pursuant to Order in Council 568/2015 dated December 17, 2015, the fiscal year end of STC was fixed at March 31 from its previous fiscal year end of December 31 effective for the year ended March 31, 2016. This change in fiscal year end was adopted and approved by the STC Board of Directors on January 6, 2016. Accordingly, the December 31, 2015 unaudited financial statements are presented as condensed interim financial statements prepared in accordance with International Accounting Standards (IAS) 34. The March 31, 2016 audited financial statements will present a 15-month period from January 1, 2015 to March 31, 2016 with comparatives for the 12-month period from January 1, 2014 to December 31, 2014.

The following Management Discussion and Analysis (MD&A) provides insight into the Saskatchewan Transportation Company's (STC) operations for the quarter ended December 31, 2015. From a management perspective, it highlights the primary factors that impacted the operations and financial results of the Company over the past twelve months.

This MD&A compares the operational outcomes of the quarter ended December 31, 2015 to the quarter ended December 31, 2014 and to the anticipated financial position of the Company over the 15-month period to March 31, 2016. It also discusses any emerging issues that will have an impact on the Company's fiscal position.

Passenger Services:

In the twelve months ended December 31, 2015, STC coaches traveled approximately 2,855,000 miles, providing intercity bus passenger service to 253 Saskatchewan communities.

Revenues from passenger operations in the three months ended December 31, 2015, were $1,744,000, down from $2,090,000 reported in the three months ended December 31, 2014. Passenger revenues for the twelve months ended December 31, 2015 were $6,891,000, compared to $7,684,000 for the twelve months ended December 31, 2014.

Expenses associated with operating passenger services were $3,793,000 for the three months ended December 31, 2015, down from $4,255,000 reported for the three months ended December 31, 2014. Passenger operating expenses were $14,926,000 for the twelve months ended December 31, 2015, down from $16,399,000 reported for the twelve months ended December 31, 2014, largely due to fiscal restraint measures taken in 2015 and a decrease in fuel prices.

Operating losses for passenger services in the three months ended December 31, 2015 were $2,049,000, compared to losses of $2,165,000 in the three months ended December 31, 2014. Losses for the twelve months ended December 31, 2015 were $8,035,000, compared to losses of $8,715,000 for the twelve months ended December 31, 2014.

Total ridership for the twelve months ended December 31, 2015 was 200,914, compared to 261,531 for the twelve months ended December 31, 2014, a decrease of approximately 23.2% due, in part, to the effects of lower consumer gas prices as well as on-going industry route discontinuations that limit the available connections for Saskatchewan residents.

STC implemented a 4.5% passenger fare increase effective March 2, 2015.

Express Services:

Through its network of 174 agents in the province and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America.

For the three months ended December 31, 2015, revenues from express operations were $1,901,000, down from the revenues of $2,173,000 reported for the three months ended December 31, 2014. Express revenues for the twelve months ended December 31, 2015 were $7,307,000, compared to $7,755,000 for the twelve months ended December 31, 2014.

Expenses associated with operating express services in the three months ended December 31, 2015 were $1,468,000, down from the $1,669,000 reported in the three months ended December 31, 2014. Express

operating expenses were $5,739,000 for the twelve months ended December 31, 2015, compared to $6,177,000 for the twelve months ended December 31, 2014.

Profits realized for express operations for the three months ended December 31, 2015 were $433,000, compared to profits of $504,000 in the three months ended December 31, 2014. Profits realized for express operations for the twelve months ended December 31, 2015 were $1,568,000, compared to $1,578,000 for the twelve months ended December 31, 2014.

STC implemented a 5% express rate increase effective February 2, 2015.

Maintenance Services:

STC operates two Maintenance Facilities, one in Saskatoon for major bus maintenance, and one in Regina for more routine servicing.

For the three months ended December 31, 2015, expenses associated with maintaining the Company's fleet (included in passenger and express services above) were $1,055,000, compared to $1,147,000 in the three months ended December 31, 2014. Maintenance expenses for the Company's fleet for the twelve months ended December 31, 2015 were $4,104,000, compared to $4,263,000 for the same period of 2014.

The Company also uses these facilities to perform maintenance work for other transportation companies. The revenues derived from this service in the three months ended December 31, 2015 were $56,000, compared to $123,000 in the three months ended December 31, 2014. Revenues for the twelve months ended December 31, 2015 were $280,000, compared to $487,000 for that same period in 2014. The decrease in revenue is due to lower fuel volumes and fuel prices being charged to maintenance customers.

Expenses associated with performing maintenance work for other companies were $27,000 in the three months ended December 31, 2015 compared to $68,000 in the three months ended December 31, 2014. Expenses for third party maintenance work for the twelve months ended December 31, 2015 were $153,000 compared to $281,000 for the same period of 2014.

Financial Summary:

Overall, STC's revenues for the three months ended December 31, 2015 amounted to $3,872,000, compared to $4,550,000 in the three months ended December 31, 2014. Revenues for the twelve months ended December 31, 2015 were $15,351,000 as compared to $16,571,000 for the same period of 2014.

Expenses for the three months ended December 31, 2015 were $7,076,000, compared to $7,797,000 for the three months ended December 31, 2014. Expenses for the twelve months ended December 31, 2015 were $27,931,000, compared to $30,162,000 for the same period of 2014.

The Company's loss before grants (including depreciation) for the three months ended December 31, 2015 was $3,204,000, compared to $3,247,000 in the three months ended December 31, 2014. Losses (including depreciation) for the twelve months ended December 31, 2015 were $12,580,000, compared to $13,591,000 for the same period of 2014.

For the twelve months ended December 31, 2015, STC was approved for an operating grant of $10.3 million from its holding company, the Crown Investments Corporation (CIC) of Saskatchewan. On December 17, 2015, an additional CIC operating grant for $2,950,000 was approved for the period January 1, 2016 to March 31, 2016. As of December 31, 2015, projections for the 15-month period to March 31, 2016, indicate that the Company will require the full amount of funding from both grants.

To December 31, 2015, STC drew down $10.3 million of the operating grant funds available from CIC. STC had no outstanding loans or indebtedness at December 31, 2015.

At December 31, 2015, the Province of Saskatchewan's equity in STC was $7,318,000 compared to $6,593,000 as at December 31, 2014.

Saskatchewan Transportation Company
Condensed Interim Statement of Financial Position

	(Thousands of Dollars)	
	As at December 31, 2015 (unaudited)	**As at December 31, 2014** (audited)
Assets		
Current		
Cash	$ 1,600	$ 1,855
Accounts receivable	899	1,311
Inventories	309	325
Prepaid expenses	531	534
Assets held for sale	9	6
	3,348	4,031
Non-current		
Property and equipment (note 4)	36,015	36,070
	$ 39,363	**$ 40,101**
Liabilities and Province's Equity		
Liabilities		
Current		
Trade and other payables	$ 1,881	$ 3,039
Non-current		
Deferred capital grant (note 4)	30,164	30,469
	32,045	33,508
Province of Saskatchewan's Equity		
Contributed surplus	465	465
Retained earnings	6,853	6,128
	7,318	6,593
	$ 39,363	**$ 40,101**

See accompanying notes

Saskatchewan Transportation Company
Condensed Interim Statement of Comprehensive (Loss) Income

	Three months ended December 31		Twelve months ended December 31	
	(Thousands of Dollars)			
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(audited)
Revenue				
Express services	$ 1,901	$ 2,173	$ 7,307	$ 7,755
Passenger services	1,744	2,090	6,891	7,684
Other	182	283	1,078	1,115
Gain on disposal of property and equipment	45	4	75	17
	3,872	4,550	15,351	16,571
Expenses				
Operating costs other than those listed below	2,527	2,889	9,150	10,956
Salaries, wages and short-term employee benefits	3,819	4,168	15,561	16,091
Depreciation (note 4)	730	740	3,220	3,115
	7,076	7,797	27,931	30,162
Loss before the following	(3,204)	(3,247)	(12,580)	(13,591)
Operating grant	2,000	1,800	10,300	10,300
Capital grant (note 4)	680	685	3,005	2,873
Total comprehensive (loss) income	**$ (524)**	**$ (762)**	**$ 725**	**$ (418)**

See accompanying notes

Saskatchewan Transportation Company
Condensed Interim Statement of Changes in Equity

(Thousands of Dollars)

	Attributable to the Province of Saskatchewan		
	Retained Earnings	Contributed Surplus	Total Equity
Balance at January 1, 2014 (audited)	$ 6,546	$ 465	$ 7,011
Total comprehensive loss	(418)	-	(418)
Balance at December 31, 2014 (audited)	6,128	465	6,593
Balance at January 1, 2015 (audited)	**6,128**	**465**	**6,593**
Total comprehensive income	**725**	**-**	**725**
Balance at December 31, 2015 (unaudited)	**$ 6,853**	**$ 465**	**$ 7,318**

See accompanying notes

Saskatchewan Transportation Company
Condensed Interim Statement of Cash Flows

	Twelve months ended December 31 (Thousands of Dollars)	
	2015 (unaudited)	**2014** (audited)
Operating Activities		
Total comprehensive income (loss)	$ 725	$ (418)
Items not involving cash:		
Depreciation (note 4)	3,220	3,115
Gain on disposal of property and equipment	(75)	(17)
Recognition of capital grant (note 4)	(3,005)	(2,873)
Net change in non-cash working capital	(727)	48
Cash provided by (used in) operating activities	138	(145)
Investing Activities		
Additions to property and equipment	(3,188)	(3,426)
Proceeds on disposal of property and equipment	95	34
Cash used in investing activities	(3,093)	(3,392)
Financing Activities		
Capital grant received	2,700	3,750
Operating demand loan	500	-
Repayment of operating demand loan	(500)	-
Cash provided by financing activities	2,700	3,750
(Decrease) increase in cash	(255)	213
Cash: beginning of year	1,855	1,642
Cash, end of period	**$ 1,600**	**$ 1,855**

See accompanying notes

1. Status of Saskatchewan Transportation Company

The Saskatchewan Transportation Company [STC; the Company] was originally established in 1946 by Order in Council #168 to act as a common carrier providing passenger service transportation, parcel express and freight services. STC's powers, duties and conditions were affirmed in 1993 by Order in Council #5. STC is continued under *The Crown Corporations Act, 1993*. STC is a corporation domiciled in Canada. The address of the Company's registered office and principal place of business is 1717 Saskatchewan Drive, Regina, SK, S4P 2E2.

The financial results of STC are included in the condensed consolidated interim financial statements of Crown Investments Corporation of Saskatchewan [CIC].

2. Basis of preparation

a. Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting*. These interim results do not include all the information required for full annual financial statements and should be read in conjunction with STC's audited annual financial statements for the year-ended December 31, 2014.

The condensed interim financial statements were authorized for issue by STC's Board of Directors on February 25, 2016.

b. Change in fiscal year end

Pursuant to Order in Council 568/2015 dated December 17, 2015, the fiscal year end of STC was fixed at March 31 from its previous fiscal year end of December 31 effective for the year ended March 31, 2016. This change in fiscal year end was adopted and approved by the STC Board of Directors on January 6, 2016. Accordingly, these December 31, 2015 unaudited financial statements are presented as condensed interim financial statements prepared in accordance with IAS 34. The March 31, 2016 audited financial statements will present a 15-month period from January 1, 2015 to March 31, 2016 with comparatives for the 12-month period from January 1, 2014 to December 31, 2014.

c. Basis of measurement

These condensed interim financial statements have been prepared on the historical cost basis.

d. Functional and presentation currency

These condensed interim financial statements are presented in Canadian Dollars, which is the Company's functional currency.

e. Use of estimates and judgments

The preparation of condensed interim financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Depreciation is based on the estimated useful lives of property and equipment. Tangible assets are reviewed for impairment each period using estimates of recoverable amounts to determine if there is an impairment loss. The accrual for compensated absences is based on historical usage.

3. Significant accounting policies

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those disclosed in STC's audited financial statements for the year-ended December 31, 2014.

4. Change in fleet valuation and estimated useful lives

Pursuant to IFRS, and based on an evaluation of internal and external sources of information related to condition, remaining useful life, and market prices for similar assets, management concluded there were observable indications that the value of two coaches was impaired. The net book value of each coach as of May 31, 2015 was $273 thousand while the assessed recoverable amount, which is fair value less costs of disposal, was estimated at $140 thousand per coach. Fair value is measured using Level 1 of the fair value hierarchy based on quoted prices readily available from an active market.

This resulted in recognition of an impairment loss on each coach of $133 thousand, or a total of $266 thousand, which has been included as part of depreciation expense on the Condensed Interim Statement of Comprehensive (Loss) Income. Both coaches were originally purchased with grant funding, and therefore the impairment loss is offset by a corresponding $266 thousand of capital grant revenue on the Condensed Interim Statement of Comprehensive (Loss) Income. There was no net effect on total comprehensive income on the Condensed Interim Statement of Comprehensive (Loss) Income. As a result of the impairment loss, property and equipment and the deferred capital grant liability decreased by $266 thousand on the Condensed Interim Statement of Financial Position. There is no impact to the Condensed Interim Statement of Cash Flows.

In accordance with the accounting policies of the company regarding estimates and judgments, management has changed the remaining useful lives of both coaches from 15 years to 8 years and therefore the coaches will be fully depreciated by August 31, 2018. As a result of this change in useful lives, depreciation expense will increase by $15 thousand for the year ended March 31, 2016, $18 thousand for the years ended March 31, 2017 and 2018, and $7 thousand for the year ended March 31, 2019.